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C O N F I D E N T I A L SECTION 01 OF 02 PRETORIA 004436

SIPDIS

DEPT FOR AF/S B. NEULING, M. TABLER-STONE
TREASURY FOR B. CUSHMAN

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TAGS: [PREL](#) [ECON](#) [ZI](#) [SF](#)

SUBJECT: ZIMBABWE LOAN TALKS RESUME; AGREEMENT NEAR

REF: A. PRETORIA 4375

[B](#). PRETORIA 4071

[C](#). PRETORIA 4024 AND PREVIOUS

Classified By: Charge d'Affaires Jeff Hartley
Reasons 1.4(b) and (d)

[1](#)1. (C) Summary. Talks on the proposed South African loan to Zimbabwe resumed November 3 in Cape Town, according to ICG analyst Sydney Masamvu. The two sides have agreed on the economic conditions, but are still negotiating the political terms. Mugabe has reportedly given Reserve Bank Governor Gono some flexibility to negotiate political conditions, such as a promise to review repressive legislation and resume constitutional dialogue. While there will be haggling over the loan's political conditions, we believe both sides want an agreement and could conclude a deal as soon as this weekend. End Summary.

[1](#)2. (C) Zimbabwean Finance Minister Herbert Murerwa and Reserve Bank Governor Gideon Gono traveled to South Africa November 2 for negotiations on the proposed South African loan to Zimbabwe. According to International Crisis Group (ICG) Analyst Sydney Masamvu, Murerwa and Gono began meetings with their South African counterparts, Finance Minister Trevor Manuel and Reserve Bank Governor Tito Mboweni, November 3 in Cape Town. In a November 3 telcon, Gono told Masamvu that the Zimbabweans plan to remain in South Africa through November 6 and hope to conclude the talks in that timeframe. Masamvu said that the two sides want to keep the talks secret, which is one reason they are holding them in Cape Town, instead of Pretoria. (Note. To date, the SAG has not announced the talks, nor has the South African press picked up the story. Post has been unable to confirm the talks with Treasury officials, but has learned that National Treasury Chief Director for International Economics flew to Cape Town on November 3rd. End Note.)

Conditionality

[1](#)3. (C) Gono told Masamvu that the two sides have agreed on the economic conditions for the loan. These include exchange rate reforms and "depoliticization" of the Zimbabwe Reserve Bank. Masamvu said that the economic terms generally mirror those pushed by the IMF, and that South Africa had been in contact with IMF staff to discuss appropriate conditionals. (Note: The SAG refuses to use the word "condition" to describe the loan terms, but this is in fact what they are imposing. End Note.)

[1](#)4. (C) On political conditions, Gono told Masamvu that President Mugabe had given him some flexibility to address South Africa's key terms. South Africa reportedly seeks the "normalization" of the political situation, which includes: (1) repeal of repressive legislation (the Access to Information and Protection of Privacy Act (AIPPA) and the Public Order and Security Act (POSA)); and, (2) constitutional dialogue with the opposition. According to Masamvu, Mugabe gave Gono authority to guarantee to the South Africans that he would "review" repressive legislation in the near future, and would consider repealing AIPPA and removing the more repressive elements of POSA. On the constitution, Gono planned to explain how the new Zimbabwean Senate and proposed harmonization of the election cycle would advance reform. The GOZ would promise to seek an "appropriate platform" to discuss constitutional reform with all stakeholders, not just the opposition MDC party.

[1](#)5. (C) Early indications suggested that the South Africans were being "tough" on the political conditions, Gono told Masamvu November 3. Masamvu speculated that Gono would be on the phone with Mugabe often during the negotiations.

Loan Amount

[1](#)6. (C) Gono told Masamvu that the total loan amount is approximately \$470 million, although the GOZ expected approximately \$200 million in the first tranche. Deputy FM Pahad told CDA October 28 that South Africa was negotiating a

Rand 1.2 billion loan for Zimbabwe (approximately \$180 million) (Ref A). (Comment: The R1.2 billion could refer to the first tranche. End Comment.)

Comment

17. (C) We believe South Africa wants to conclude the talks and make the loan. Stability in Zimbabwe remains a major preoccupation for the SAG, and it views the loan as a means to shore up Zimbabwe's collapsing economy, and at the same time advance political reform. Mugabe's alleged "concessions" on political conditionals, such as his agreement to "review" AIPPA and POSA, seem vague, and South Africa will likely push for more specific commitments. However, both sides want to make a deal, and we suspect that they could find common ground as soon as this weekend. End Comment.
HARTLEY